



Intra-African Trade Imperative

Statement by:

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Transforming Africa's Trade

- *Honourable Minister of International Relations & Cooperation, Ms Maite Nkoane- Mashabane*
- *Dr. Lomkhosi Mkhonta, Acting Director- Industrial Development and Trade for SADC*
- *Ms. Lynette Chen, Chief Executive Officer, NEPAD Business Foundation*
- *Representatives of SADC Member States;*
- *Captains of Industry;*
- *Distinguished Ladies and Gentlemen.*
- *Good Morning,*

May I begin by joining Honourable Nkoane Mashabane and Dr. Mkhonta-Gama in commending the NEPAD Business Foundation for organizing this prestigious event which is aligned to both the developmental agenda as well as aspirations of many African countries as articulated in the AU Agenda 2063 as well as a number of national and regional trade and industrialization strategies.

I also take this opportunity to convey profound gratitude of the Board of Directors and Management of the African-Export Import Bank (Afreximbank) for the honour of addressing this **August gathering** on a theme that is at the heart of our corporate strategy.

Distinguished Ladies and Gentlemen, each time we visit South Africa, we do not cease to marvel at the splendour of its landscape, the glow of its sunshine, the richness of its culture and most of all, the resilience of its industries.



We are pleased to discuss the imperative of intra-African trade here in the “**Rainbow Nation,**” one of the leading countries promoting intra-regional trade on the continent as seen through various statistics.



In this regard, Distinguished Ladies and Gentlemen, please join me in thanking Honourable Nkoane Mashabane and officials of Government of the Republic of South Africa for being here with us today and engaging with us in these discussions.



While a number of countries are leading the way for Africa's steady progress towards delinking itself from commodities, it appears the broader continent remains largely exposed to the volatility of commodity prices.

These developments threaten to reverse the significant gains made by Africa during the 2000s and early 2010s, slowing economic growth below trend levels of about 5 percent and contracting trade values to below 1 trillion dollars.

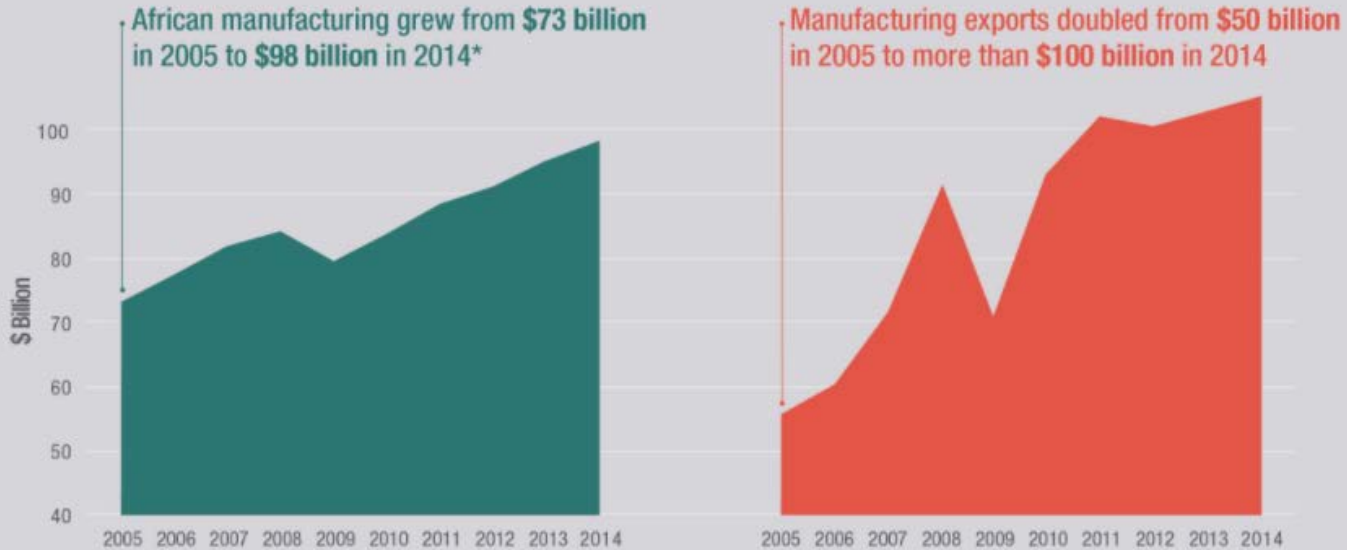
In order to address some of these challenges that are exacerbated by overdependence on commodity exports, Africa needs to add value to its agriculture products and minerals and deepen intra-African trade.

Distinguished Ladies and gentlemen, the strategy for transformation in U.S., Europe and Asia was underpinned by industrialization as strong private sector organizations benefitted from growing “internationalization” of production systems which gave rise to **vertical trading chains** as well as **intra-industry trade** spanning a number of countries, each specializing in a particular stage of production. This trend precipitated growth in intra-regional trade on the back of increasing inter-dependencies within regional value chains.

Africa needs to learn from some of these regions and use technology and its abundant resources to industrialize and catch-up with other industrialized regions.

There are promising signs that manufacturing will drive Africa's transformation.

Think African manufacturing is in decline? Think again.



Manufacturing in sub-Saharan Africa has increased in real terms by 3.5% a year – faster than the global average.

Distinguished Ladies and Gentlemen, we are of the strong view that Africa's success story will also be based on the pivotal role of intra-regional trade and industrialization. It is not out of blind patriotism that I will colour the African story which I will soon recount with a dose of optimism – there are good reasons for doing so:

Firstly, the top 30 African Multinational Corporations have in recent years been growing their revenues at a remarkable annual rate of 30 per cent while revenues from the S&P 500's biggest American firms consistently dropped during the same period.

Secondly, African Multinational Corporations such as the Dangote Group, Export Trading Group (ETG), El Sewedy and MTN to mention but a few, are increasingly investing across borders and are contributing to growth in intra-regional investment flows, which averaged about 24% of total Foreign Direct Investment flows in Africa. This is becoming an important source of capital formation for some African economies;

Africa has a rising middle class, estimated at about 300 million or 28 percent of the population and growing at the rate of 2.5 percent per annum and this has created a market for consumer goods within the continent.

Distinguished Ladies and Gentlemen, there is sustained growth of African household consumption expenditure. It has risen from 420 billion US dollars in 2000 to more than 2.5 trillion US dollars in 2015. This growth is projected to continue.

It is heartening to note that the African diaspora has become an important part of the African economy and migrant remittances amounted to 50 billion US dollars in 2015, representing about 10 percent of the continent's foreign currency earnings.

Should the collective African diaspora be regarded as the 55th African state, it will rank top in terms of “GDP”. Our calculations show that the State will have a GDP greater than US\$500 billion and GDP per Capita significantly higher than Africa's average.

Africa's affordable and attractive labour force has become the destination of light manufacturing jobs which are relocating largely from China and even countries like Mauritius;

Seventh, with the de-localization of Chinese light manufactures to other developing parts of the world, including Africa as is evident in countries like Ethiopia, the continent is poised to become an exporter of manufactured goods of some significance by 2020;

Finally, Africa has gradually increased its international reserves currently estimated at 520 billion US dollars with pension funds and other funds under management estimated at approximately 700 billion US dollars.

This points to improving macroeconomic environment for investment which is a crucial component for increased intra-regional trade as it enhances capacity for production across regional value chains.

If these facts hold, Africa has a chance to maintain resilience and the key ingredients appear available for growth in intra-African trade. As was the case in the days of the ancient traders of **Kush**; the light industrialization age ushered by **Phoenicians of Egypt**; and indeed the period of inimitable intra-African trade flows initiated by **Mansa Mussa**, intra-African trade holds promise for transformation of the continent.

Despite the positive signs highlighted above, challenges remain as the level of intra-African trade at 15% does not compare favourably with 37% share for intra-regional trade in North America, 51% in Developing Asia, and 59% in Europe, Latin America 19%.

In terms of industrialization, the respective levels are as follows; North America (92%), Europe (72%), Asia (63%), Latin America (54%) and Africa (52%)

Intra-African Trade declined from USD175 bn in 2014 to USD142 bn in 2015 as a result of the decline in commodity prices as well as depressed global demand.

Intra-African Trade by Region: 2015

Economic Grouping	AMU UMA	CEN-SAD	COMESA	EAC	ECCAS CEEAC	ECOWAS CEDEAO	IGAD	SADC	AFRICA AFRIQUE	World MONDE	Zone économique
Export to →	(millions of US \$) / (Millions de \$ EU)										← Exportations vers
AMU	3 599	4 986	1 849	14	360	1 204	276	217	6 500	82 499	UMA
CEN-SAD	3 823	16 260	5 040	1 694	2 858	11 491	2 293	6 143	26 946	175 347	CEN-SAD
COMESA	1 765	4 926	8 889	2 695	2 562	365	3 925	7 850	15 279	72 831	COMESA
EAC	43	1 538	3 879	2 731	1 611	95	2 175	2 019	5 495	14 504	EAC
ECCAS	56	829	1 959	105	1 188	401	75	3 030	4 447	66 251	CEEAC
ECOWAS	289	10 605	307	27	1 826	10 024	30	4 789	16 911	92 491	CEDEAO
IGAD	56	2 116	3 056	2 005	958	74	2 648	1 169	4 881	17 105	IGAD
SADC	534	3 752	13 437	2 262	4 072	1 619	1 676	30 620	35 572	146 344	SADC
Africa	5 982	24 196	20 711	4 709	8 346	13 417	5 706	37 637	68 538	387 719	AFRIQUE
World	117 605	301 152	169 804	39 591	50 196	117 672	55 230	171 117	560 272	16 608 953	MONDE

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Export to →	(millions of US \$) / (Millions de \$ EU)										← Exportations vers
← Import from	(millions of US \$) / (Millions de \$ EU)										→ Importations de
AMU	4 100	4 543	1 962	29	73	328	61	631	7 019	129 685	UMA
CEN-SAD	5 397	15 795	4 147	836	958	9 536	1 224	3 329	22 788	265 961	CEN-SAD
COMESA	2 566	7 044	10 056	3 899	1 949	289	3 435	14 768	23 430	169 229	COMESA
EAC	18	1 878	2 829	2 567	93	30	2 114	2 023	4 566	35 417	EAC
ECCAS	518	3 610	2 550	1 618	1 432	2 463	1 055	4 483	9 917	56 352	CEEAC
ECOWAS	1 156	10 524	367	76	309	9 073	78	1 655	12 500	97 551	CEDEAO
IGAD	509	2 927	3 225	1 562	45	39	1 811	1 589	5 135	58 590	IGAD
SADC	339	6 687	7 905	1 831	3 544	5 049	1 308	34 505	42 031	167 633	SADC
Africa	7 311	28 752	15 088	4 876	5 185	16 935	4 412	39 630	73 857	543 813	AFRIQUE
World	92 400	191 904	79 123	13 675	69 881	94 297	18 911	192 590	452 052	16 567 929	MONDE

Although a number of challenges such as poor implementation of regional commitments, settlement issues, limited access to trade finance, weak trade-enabling infrastructure, lack of unified continental standardization and conformity systems, limited diversification of African economies, and product concentration, the narrowness of the continent's production and export structures and excessive dependence on primary commodities, as well as the existence of a range of non-tariff barriers have been identified as barriers to intra-African trade, the analysis by the Bank shows that **lack of access to trade and market information is a key barrier to intra-African trade.**

This is because currently, the existing stock of African infrastructure coupled with Non-Tariff Barriers carry about 1 Trillion US dollars of trade.

Our research further shows that if issues around trade and market information on the continent are resolved and more opportunities for export manufacturing are unlocked, intra-African trade can increase from its current levels of 15% to 38% without further beneficiation of existing traded products.

The size of intra-African trade could be doubled from the current level of about \$170 billion per year to almost \$400 billion by addressing the issue of availability of market information.

According to a study on regional value chains for leather and leather products, jointly commissioned by Afreximbank, UNCTAD and the Commonwealth Secretariat, it was revealed that Australia was the main source of tanned hides and skins for Southern Africa, including South Africa, even though Zambia exported the same products at lower costs and its exports were higher than South Africa's imports.

The report also showed that South Africa imported leather from India, that had been further tanned, at double the price at which Ethiopia exported such leather while Mauritius and Nigeria imported leather products from Italy and Belgium at much higher costs than what South Africa and Botswana exported them for.

Kenya imported raw hides from New Zealand while Burundi exported the same product to the world at a much lower price.

West African countries, on average, imported meats worth more than \$3 billion per annum from Argentina and Australia even though Mali, Chad and Sudan could supply all the meats required by the region.



In order to assist the continent to address the aforementioned challenges and use trade and industrialization to achieve transformation, the Bank adopted its five year Strategic Plan in 2017, themed “IMPACT 2021: Africa Transformed”. The Plan amongst others, seeks to promote intra-African trade, facilitate export development through industrialization/export manufacturing, and strengthen the Bank’s leadership in African trade finance.

The Strategy aims to provide trade finance in the amount of 90 billion US dollars to African corporates on a revolving basis by 2021; of this amount, 25 billion US dollars is expected to be disbursed on a revolving basis in support of intra-African trade.

The Bank also adopted the Intra-African Trade Strategy (2016) and the Industrialization and Export Development Strategy to facilitate intra-African trade and to promote industrialization and export manufacturing.

The Intra-African Trade Strategy contextualizes and provides specific details of the Bank's interventions in trade finance and trade facilitation. The Bank's objective is to increase intra-African trade from USD170 billion in 2014 to over USD 250 billion and by so doing, ensure that intra-African trade share of Africa's total trade reaches 22% by 2021.

The Bank's objectives are aligned to the African Union Agenda 2063 as well as the Boosting Intra-African Trade Initiative and the CFTA negotiations.

The Bank defines intra-African trade as the trade in goods and services between or among African countries and the flow of goods and services between Africa and Africans in the Diaspora.

The scope of intra-African Trade has also been broadened to include informal cross border trade to enable the Bank to design special products and dedicate resources to formalize this trade.

This is because estimates have shown that this trade amounts to 50% and 80% of the total intra-African trade; in monetary terms, it averages between US\$70 billion and US\$140 billion.

The Intra-African Trade Strategy is conceived and conceptualized around three main pillars, namely; CREATE, CONNECT and DELIVER with an ancillary pillar known as measure.

Allow me to briefly share the details of these pillars.

Under the **CREATE** Pillar, the Bank aims to build capacity for the expansion of production and processing capabilities, with focus on agricultural production, agro-processing, manufacturing and services. Through this Pillar, the Bank is facilitating capacity for expansion of tradable goods and services that can enter the trade.

Under the **CONNECT** Pillar, the Bank aims to provide a facilitative environment for the flow of goods by creating robust in-country and intra-regional supply chains in Africa. Through this Pillar, the Bank will identify and support key institutions that connect producers and buyers along the intra-African value chain.

Under the **DELIVER** Pillar, the Bank aims to provide efficient and cost effective distribution channels for the delivery of goods and services to buyers within the continent and support the emergence of facilitative infrastructure, including transportation and logistics as well as introducing an intra-African trade payment platform;

Under the ancillary pillar, **measure**, the Bank will continuously assess impact of its interventions under the Intra-African Trade Strategy to ensure that the objective of increasing intra-African trade is being met.

Let me provide highlights of some of the key interventions developed in support of the Intra-African Trade Strategy:

- To support evolution of informal trade into mainstream economies of African countries, the Bank is developing an ***Intra-African Trade Platform*** which is essentially an online marketplace that connects buyers and sellers, provides payment and settlement solutions and logistics services;
- To facilitate ease of flow of goods and services across borders and also reduce transit time and costs, especially for Africa's landlocked countries, the Bank is developing an ***Interstate Transit Guarantee***;

- In support of light manufacturing in Africa, the Bank has an initiative for establishment of **Industrial Parks and Export Processing Zones** focusing on agro-processing industries and light manufactures that are aimed at:
 - (i). capturing the de-localized jobs from China and in Africa, Mauritius; and
 - (ii). stimulating industrialization in African countries;
- As we aim to support African exports to attain international standards, the Bank is also supporting the establishment of internationally accredited **Inspection and Certification Centres** that will support African exports to meet international standards and accredited conformity assessments;

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- In support of the emergence and growth of ***Export Trading Companies (ETCs)*** that will bring produce from farm gate to factory and processed goods from factories to market within the continent, the Bank is developing model legal and regulatory framework for ETCs in Member countries and providing a suite of trade finance products such as packing credits, domestic letters of credit and factoring (supply chain finance);

- To capture the steady growth in trade and commercial ties between Africa and its citizens in the Diaspora, the Bank is developing a ***Diaspora Initiative*** that will allow for the application of African capital, knowledge and skills of Diaspora towards the promotion of intra-African trade;
- The Bank will also organize and hold **Intra-African Trade Fairs** starting from 2018 that will connect African buyers and sellers, provide trade and market information and also facilitate B2B exchanges.

For Details on the Trade Fair click: <https://en.afreximbank-agm.com/intra-african-trade/>

- The Bank has developed an ***Intra-African Investment Finance and Guarantee Programme*** that will ring-fence the rights of investors from one African country operating in another African country;
- Through its ***Country Risk Guarantees***, the Bank will cover exporters from one African country against country risk events in the destination country of their goods or services;
- The Bank has developed a ***Franchise Financing Facility*** to support growth of African SMEs;

Finally, the Bank has developed a ***Global Facility*** for African Multinational Corporations who we branded Intra-African Trade Champions or ***“INTRA-CHAMPS”*** which aims at identifying the main players in intra-African trade and supporting their operations through financing, enabling market access and other forms of technical assistance.

Allow me to close with two quotes:

“Economically, a colonial possession means to the home country simply a privileged market whence **IT WILL DRAW THE RAW MATERIALS IT NEEDS, DUMPING ITS OWN MANUFACTURES IN RETURN.** Economic policy is reduced to rudimentary procedures of gathering crops and bartering them. Moreover, by strictly imposing on its colonial dependency the exclusive consumption of its manufactured products, **THE METROPOLIS PREVENTS ANY EFFORTS TO USE OR MANUFACTURE LOCAL RAW MATERIALS ON THE SPOT, AND ANY CONTACT WITH THE REST OF THE WORLD.**

THE COLONY IS FORBIDDEN TO ESTABLISH ANY INDUSTRY, TO IMPROVE ITSELF BY ECONOMIC PROGRESS, TO RISE ABOVE THE STAGE OF PRODUCING RAW MATERIALS, OR TO DO BUSINESS WITH THE NEIGHBOURING TERRITORIES for its own enrichment across the customs barriers erected by the metropolitan power.”

Albert Sarraut (1872-1962)

“Unless Africa increases intra-African trade to at least 50% of its total trade, it will not be fully liberated” – His Excellency Olusegun Obasanjo, 2016.

Thank you for your attention.

About AFREXIMBANK

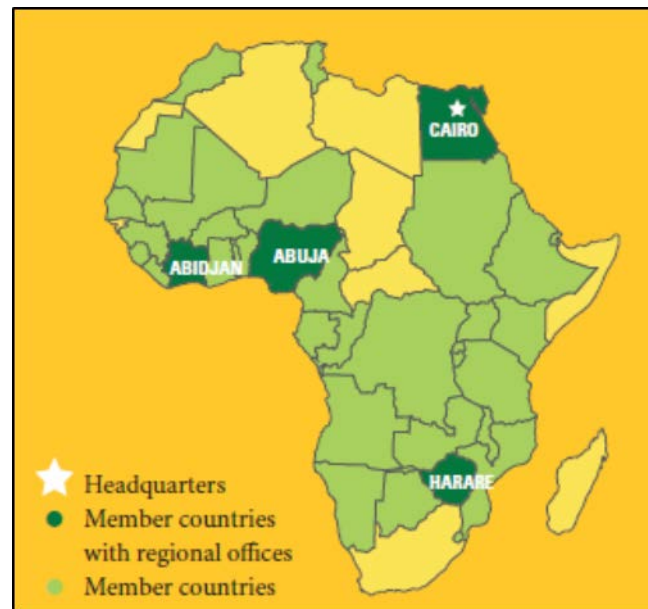
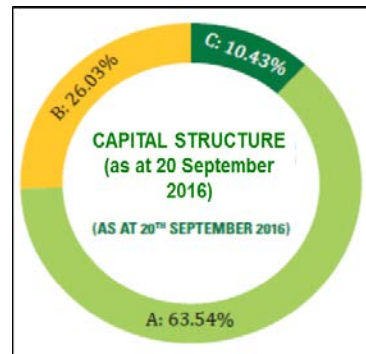
Shareholding Structure

Afreximbank's capital is currently divided into 4 share classes:

- Class A: comprises African states and their designated institutions, the AfDB and African regional and sub-regional institutions (63.54%);
- Class B: comprises African financial institutions and private investors (26.03%);
- Class C: comprises IFIs, non-African banks and financial institutions and non-African public and private investors (10.43%); and
- Class D: Open to any investors (0%)

Member Countries (44)

- | | | | |
|-----------------------|----------------|--------------|-----------------|
| • Angola | • Liberia | • Mauritania | • Gambia |
| • Ivory Coast | • Seychelles | • Tanzania | • Niger |
| • Burkina Faso | • Cameroon | • Egypt | • Zimbabwe |
| • Benin | • Malawi | • Mauritius | • Ghana |
| • Kenya | • Sierra Leone | • Tunisia | • Nigeria |
| • Rwanda | • Cape Verde | • Ethiopia | • Guinea Bissau |
| • Botswana | • Mali | • Uganda | • Guinea |
| • Lesotho | • Sudan | • Gabon | • CAR |
| • Senegal | • Morocco | • Namibia | • Chad |
| • Republic of Congo | • DRC | • Zambia | • South Sudan |
| • Sao Tome & Principe | • Burundi | • Togo | • Djibouti |





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